



**NETAPP
THIRD QUARTER OF FISCAL YEAR 2025
PREPARED REMARKS
FEBRUARY 27, 2025**

Prepared remarks by:

Kris Newton, VP, Investor Relations

George Kurian, Chief Executive Officer

Mike Berry, EVP and Chief Financial Officer

Kris Newton: Hi everyone – thanks for joining us. With me today are our CEO, George Kurian, and CFO, Mike Berry. This call is being webcast live and will be available for replay on our website at netapp.com.

During today's call, we will make forward-looking statements and projections with respect to our financial outlook and future prospects, including, without limitation, our guidance for the fourth quarter and fiscal year 2025; our expectations regarding future revenue, profitability and shareholder returns; and other growth initiatives and strategies.

These statements are subject to various risks and uncertainties, which may cause our actual results to differ materially.

For more information, please refer to the documents we file from time to time with the SEC and on our website, including our most recent Form 10-K and Form 10-Q. We disclaim any obligation to update our forward-looking statements and projections.

During the call, all financial measures presented will be non-GAAP, unless otherwise indicated.

Reconciliations of GAAP to non-GAAP estimates are available on our website.

I'll now turn the call over to George.

George Kurian: Thanks Kris. Welcome, everyone.

In Q3 FY'25, we delivered revenue growth of 2% year-over-year and continued our disciplined management of the business, yielding operating margin of 30%, above expectations.

Although within our guidance range, we are not satisfied with our top line performance. We remain well positioned with customers as their supplier of choice for AI and other data-driven workloads. First-party

and marketplace cloud storage services and AI were bright spots in the quarter. We had line of sight to achieve our sales targets until the end of Q3 when inconsistent execution resulted in some deals slipping out of the quarter. Recognizing this, we have instituted a higher level of scrutiny on deal progression through the pipeline with tighter controls on closing plans. We expect these actions will enhance our execution and improve our momentum. Already, a number of the slipped deals have closed.

Compared to Q3 a year ago, Hybrid Cloud revenue increased 1% and our all-flash array business grew 10% to an annualized revenue run rate of \$3.8 billion. Although impacted by sales execution, C-series capacity flash arrays, StorageGRID object storage systems, and ASA scale-out all-flash block storage systems all delivered solid growth. Keystone, our Storage-as-a-Service offering also had another strong quarter, with revenue growing almost 60% year-over-year. We are gaining ground with our industry-leading solutions and earning recognition for our efforts. We were recently named a Customers' Choice for Primary Storage in Gartner's 2025 Voice of the Customer report, a testament to our strong market position.

We continue to deliver innovation at a blistering pace. In Q3, we introduced entry and midrange AFF A-series high performance and C-series capacity flash arrays, completing the refresh of these product lines. At the start of Q4, we introduced new entry-level and midrange ASA systems to complement the high-end ASA products introduced earlier in FY'25. These new systems make it easier for customers to scale up from a smaller starting point or expand capabilities to remote and branch locations. Powered by ONTAP, they deliver simplicity at scale and enable customers to reduce storage costs through integrated data tiering, with consistent, streamlined operations and data protection.

The new products are already gaining traction with customers. Our ability to unify data across hybrid multi-cloud environments and strong ransomware protection puts us ahead of the competition. To support real-time AI-enabled fraud detection, a U.S.-based financial services firm selected the AFF A90 for its scalable performance, native container support, and comprehensive security certifications. Requiring a storage solution that could provide a consistent unified namespace across their different locations with a single management interface, an electronics manufacturer chose the AFF C60 for its proven ability to span multiple locations including edge, core and cloud at the right price point for each.

We continue to see growth in demand for AI solutions, as the large market opportunity for enterprise GenAI begins to open, and customers seek a unified and structured view of their data assets. In Q3, our AI business again performed ahead of our expectations, with over 100 AI infrastructure and data lake modernization wins. These wins spanned geographies, varied in size, and included a number of service providers deploying NetApp as the storage foundation for their AI-as-a-Service offerings.

For many organizations, the journey to widespread use of enterprise AI begins with modernizing data lake environments to object storage. In the quarter, we enhanced our StorageGRID object storage solution with improved scalability and flexibility and doubled the density of object deployments, reducing rack space requirements and lowering power and cooling costs. A leading U.S. retail bank selected StorageGRID as its foundational platform for its private cloud storage, including AI and data lake optimization. The initial deployment is five PBs and expected to triple in size with subsequent phases later this calendar year.

Other enterprises are further along in their AI evolution, deploying GenAI models in production for inferencing and RAG. One of the world's largest banks struggled with scalability, siloed data platforms, and disparate tools for its GenAI training and inferencing workloads. To address these challenges, they selected NetApp as the storage foundation for their GenAI factory. Our ability to deliver a solution with secure and economical data movement into and out of the AI Factory, tiering for model checkpoints, and model traceability enabled us to beat out the competition and win the deal.

Now turning to Public Cloud. We further honed the focus of our Public Cloud business with the sale of the Spot by NetApp business. As many Spot and CloudCheckr customers are also customers of our other products and services, it was important to us to select the right partner to assume this portfolio and we are confident that these customers will benefit from a more complete FinOps portfolio from Flexera. Mike will share with you the financial impact of this sale based on our expectation that the deal will close in early March.

As we've discussed in the past, our Public Cloud strategy is led by our highly differentiated first-party and marketplace cloud storage services, complemented by intelligent data and operational services such as Data Infrastructure Insights (formerly known as Cloud Insights) and workload services like InstaClustr. These services, in concert with our Hybrid Cloud products, enable customers to build a seamless intelligent data infrastructure across hybrid multicloud.

First-party and marketplace cloud storage services again grew well over 40% from last year, driving total Public Cloud segment revenue growth of 15%. Excluding Spot by NetApp, first-party and marketplace storage services made up over 70% of the Q3 Public Cloud segment revenue.

In the quarter, we announced innovations to Amazon FSx for NetApp ONTAP and Microsoft Azure NetApp Files and received the Google Cloud Ready Regulated & Sovereignty Solutions Designation for Google Cloud NetApp Volumes and Cloud Volumes ONTAP. These advancements highlight the strength of our partnership and collaboration with the leading hyperscalers, broadening our addressable opportunity.

As customers move workloads into the cloud, they choose NetApp-based storage services to deliver high performance and low TCO. A European bank is executing a large-scale migration to AWS for its VMware, database, and container applications. The customer will migrate tens of thousands of VMs and containers

composing almost 15 PBs of data, largely from a competitor's footprint, on to FSxN. FSxN will deliver significant cost savings compared to other native storage services and its ability to support unified file and block access will reduce the bank's management overhead.

Looking forward, our mission is clear and our focus is sharp. Customers value our modern approach to hybrid, multicloud infrastructure and data management which enables them to build an intelligent data infrastructure and leverage the power of their entire data estate simply, securely, and sustainably. Our portfolio has never been stronger or more tightly aligned to IT organizations top priorities. Although we didn't perform to our standards in Q3, it remains true that broad-based customer preference for our solutions and our visionary approach for a data-driven future enables us to outgrow the market and take share. We enable customers to treat data as an enterprise-wide asset to stay agile and competitive in the age of AI.

As we close out FY'25, we believe the actions we've undertaken to improve sales execution will get us back on track in Q4. However, as you will hear from Mike, our expectations are tempered by the divestiture of Spot by NetApp, FX, and near-term headwinds to global public sector, resulting in a slight decrease to our FY'25 guide. All factors considered; we remain confident in our ability to achieve the financial goals we laid out last June at our investor day.

Before I close, I want to acknowledge that this is the last earnings call Mike will lead. His successor, Wissam Jabre, joins us March 10. Mike, thank you for your partnership over the past 5 years. You've helped drive growth and profitability, strengthening our performance to create tremendous shareholder value. More importantly, you have been a respected colleague and wonderful leader for NetApp, as well as a close partner and friend to me. I am confident in our ability to build on the strong foundation you've helped to establish.

I'll now hand it over to you for details on the quarter.

Mike Berry: Good afternoon everyone and thank you for the kind words George, they are greatly appreciated. I want to thank you for our partnership and the confidence and trust you placed in me. I will always value our relationship and am very proud of what we have all accomplished at NetApp. As everyone knows I will be handing the baton to Wissam some time after this earnings call, but for now it is business as usual, so let's jump into the results.

Before I get into the financial details of Q3, let me walk you through the key themes for the quarter. As a reminder, all numbers discussed are non-GAAP unless otherwise noted.

- First, our disciplined operational management yielded operating margin above our guidance and EPS inline with our guidance, despite revenues towards the lower-end of our expectations in Q3.

- Second, we have adjusted our outlook for Q4 and FY'25 due to our recently announced divestiture of Spot and Cloudcheckr, collectively called Spot by NetApp, the negative revenue and EPS impact from the stronger U.S. dollar, and our Q3 revenue performance. Our forecast assumes that our Q4 is back on track in terms of our execution, somewhat offset by expected global Public sector weakness.
- Third, while our full year revenue guidance is reduced slightly, we remain laser-focused on driving operating margins and free cash flow generation. Towards this end, we have taken swift action to control our expenses in Q4 as well as remain disciplined on pricing as we end the year.
- Finally, we returned over \$300 million to stockholders through dividends and share repurchases, reducing Q3 diluted share count by 3 million shares year-over-year.

Now, to the details of the quarter. Revenue of \$1.64 billion increased 2% year-over-year. While our revenue was \$44m below the midpoint of our guidance, around a third of this was F/X driven. Billings of \$1.71 billion increased 2% year-over-year. This marks our fifth consecutive quarter of year-over-year revenue and billings growth.

Product revenue of \$758 million was up 1% year-over-year. Support revenue of \$621 million declined 2% year-over-year but was roughly flat year-over-year in constant currency. Professional Services revenue of \$88 million grew 14% year-over-year, mainly driven by Keystone, our storage-as-a-service offering, which grew nearly 60% year-over-year. Public Cloud revenue of \$174 million increased 15% year-over-year, driven by hyperscaler first-party and marketplace storage services. Q3 Cloud revenues excluding Spot by NetApp grew 21% year-over-year, and we expect this to accelerate on a year-over-year basis into Q4 driven by our Cloud storage business, signaling a continued healthy cloud demand environment.

Q3 deferred revenue was \$4.1 billion, flat year-over-year, but up 1% year-over-year in constant currency. Remaining performance obligations were \$4.5 billion. Unbilled RPO was approximately \$350 million, up 6% quarter-over-quarter. Growth in unbilled RPO is a key indicator of future Keystone growth.

Q3 consolidated gross margin came in at 71%. Product gross margin was 57% and we expect product GM% to be around 56% in Q4. We plan to utilize the majority of our remaining strategic SSD purchases in Q4.

Our recurring support business continues to be highly profitable with gross margins of 92%. Q3 Public Cloud gross margins improved to 76% from 66% in the prior year. We are particularly proud of the 1000 basis point improvement in Public Cloud gross margins. We expect to make further progress on our Public Cloud gross margins and exit FY'25 towards the high-end of our long-term target of 75-80%.

Operating expenses of \$669 million was down 2% year-over-year and down 7% from Q2 '25. Q3 again highlighted the strength of our business model and disciplined operational execution with operating margin

of 30%, ahead of expectations. EPS of \$1.91 was in-line with our guidance, with revenues and gross margins below our guidance points but offset by operating expense control.

Operating cash flow was \$385 million in Q3 compared to \$484 million a year ago, and free cash flow was \$338 million compared to \$448 million a year ago. Our lower year-over-year cash flow results for Q3 were primarily driven by lower collections and higher cash outflows for previously secured strategic SSD purchases. These strategic purchases resulted in much higher than usual inventory levels and inventory turns of 7 in Q3. As previously noted, we expect to utilize the majority of these purchases by the end of our fiscal year and to see a commensurate reduction in inventory ending FY'25. As mentioned on our last call, we expect free cash flow in FY'25 to be lower year-over-year due to working capital-related factors that we don't expect to repeat into FY'26. In the quarter, DSOs increased to 50, in-line with seasonal averages.

During the quarter, we returned \$306 million to stockholders through share repurchases and cash dividends. We have approximately \$600 million remaining on our existing repurchase authorization. Our balance sheet remains healthy. We ended the quarter with approximately \$2.3 billion in cash and short-term investments against \$2 billion in debt.

Before I go through our updated guidance, I want to quickly level set on 2 of the changes that happened from our last guidance in November. First, as we have all seen, the strength of the U.S. dollar is having a negative impact on reported results. For NetApp, the expected impact to the second half of FY'25 as compared to our previous guidance is approximately \$30 million less in reported revenue and an \$0.08 impact to EPS. Second, we plan to close the Spot divestiture in early March, and this will result in around \$15 million less in cloud revenue in Q4. The transaction is expected to be largely neutral to EPS.

Now turning to guidance, starting with the full year. Our new revenue guidance for the full year is between \$6.49 and \$6.64 billion, representing approximately 5% year-over-year growth at the midpoint. The slight reduction in our full year guidance is primarily driven by F/X and the planned divestiture of Spot. We now expect FY'25 consolidated gross margin to be approximately 71%. We continue to expect FY'25 operating margin to be 28-28.5%. We expect net interest income to be approximately \$55 million. We expect our tax rate to be 20-21%. As a result, we expect EPS to be in the range of \$7.17 to \$7.27, which at the \$7.22 midpoint, implies 12% growth year-over-year.

Turning now to our fourth quarter guidance. We expect Q4 revenue to range between \$1.65 and \$1.80 billion, which at the midpoint implies 3% growth year-over-year. We expect Q4 consolidated gross margin to be between 69-70%, and operating margin to be approximately 28%. We expect net interest income to be approximately \$10 million in the quarter and our tax rate to be 20-21%. EPS is expected to be in the range of \$1.84 to \$1.94.

In closing, I want to thank the NetApp ecosystem for their commitment and investment in our company. I am confident in our ability to help our customers successfully achieve their digital and cloud transformation goals. We are well aligned to priority IT investments and are committed to deliver sustainable, long-term value for our stockholders.

Before handing to Kris for Q&A, I want to thank our employees, customers, and shareholders for their commitment to NetApp during my five years in this role. It has been an honor and privilege to be the CFO at NetApp and I am confident that George, Wissam and the whole NetApp team will continue to deliver shareholder value going forward.

With that said, I'll now turn the call over to Kris to open the Q&A. Kris?

Kris Newton: Thanks Mike. Operator, let's begin the Q & A.